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## Quiz: Test Your Interest Rate Knowledge



In December 2015, the Federal Reserve raised the federal funds target rate to a range of 0.25% to 0.50%, the first rate increase from the near-zero range where it had lingered for seven years.

Many economists viewed this action as a positive sign that the Fed had finally deemed the U.S. economy healthy enough to withstand slightly higher interest rates. It remains to be seen how rate increases will play out for the remainder of 2016. In the meantime, try taking this short quiz to test your interest rate knowledge.

### Answers

**1. b. False.** Bond prices tend to *fall* when interest rates rise. However, longer-term bonds may feel a greater impact than those with shorter maturities. That's because when interest rates are rising, bond investors may be reluctant to tie up their money for longer periods if they anticipate higher yields in the future; and the longer a bond's term, the greater the risk that its yield may eventually be superceded by that of newer bonds. (The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.)

**2. c. Federal funds rate.** This is the interest rate at which banks lend funds to each other (typically overnight) within the Federal Reserve System. Though the federal funds rate affects other interest rates, the Fed does not have direct control of consumer interest rates such as mortgage rates.

**3. a. True.** Raising rates theoretically slows economic activity. As a result, the Federal Reserve has historically raised interest rates to help dampen inflation. Conversely, the Federal Reserve has lowered interest rates to help stimulate a sluggish economy.

**4. b. False.** Rising interest rates could actually benefit investors who have money in cash alternatives. Savings accounts, CDs, and money market vehicles are all likely to provide somewhat higher income when interest rates increase. The downside, though, is that if higher interest rates are accompanied by inflation, cash alternatives may not be able to keep pace with rising prices.

**5. a. True.** Higher borrowing costs can reduce corporate profits and reduce the amount of income that consumers have available for spending. However, even with higher rates, an improving economy can be good for investors over the long term.

### Quiz

**1. Bond prices tend to rise when interest rates rise.**

- a. True
- b. False

**2. Which of the following interest rates is directly controlled by the Federal Reserve Open Market Committee?**

- a. Prime rate
- b. Mortgage rates
- c. Federal funds rate
- d. All of the above
- e. None of the above

**3. The Federal Reserve typically raises interest rates to control inflation and lowers rates to help accelerate economic growth.**

- a. True
- b. False

**4. Rising interest rates could result in lower yields for investors who have money in cash alternatives.**

- a. True
- b. False

**5. Stock market investors tend to look unfavorably on increases in interest rates.**

- a. True
- b. False

### October 2016

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Ten Year-End Tax Tips for 2016

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## Ten Year-End Tax Tips for 2016



### **Deductions may be limited for those with high incomes**

If your adjusted gross income (AGI) is more than \$259,400 (\$311,300 if married filing jointly, \$155,650 if married filing separately, \$285,350 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2016 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

### **IRA and retirement plan contributions**

For 2016, you can contribute up to \$18,000 to a 401(k) plan (\$24,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2016 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2016 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

### **1. Set aside time to plan**

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

### **2. Defer income to next year**

Consider opportunities to defer income to 2017, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

### **3. Accelerate deductions**

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2017, could make a difference on your 2016 return.

### **4. Factor in the AMT**

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2016, prepaying 2017 state and local taxes probably won't help your 2016 tax situation, but could hurt your 2017 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

### **5. Bump up withholding to cover a tax shortfall**

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments.

### **6. Maximize retirement savings**

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2016 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

### **7. Take any required distributions**

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

### **8. Weigh year-end investment moves**

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

### **9. Beware the net investment income tax**

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified AGI exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

### **10. Get help if you need it**

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



## Top Financial Concerns of Baby Boomers, Generation Xers, and Millennials



*In its survey, PricewaterhouseCoopers defined the generations as having these birth years: baby boomers: 1943-1960; Generation X: 1961-1981; millennials: 1982-1997. The U.S. Census Bureau and other groups often define these generational ranges differently.*

*Source:*

*"Employee Financial Wellness Survey," PricewaterhouseCoopers LLP, April 2016*

Many differences exist among baby boomers, Generation Xers, and millennials. But one thing that brings all three generations together is a concern about their financial situations.

According to an April 2016 employee financial wellness survey, 38% of boomers, 46% of Gen Xers, and 51% of millennials said that financial matters are the top cause of stress in their lives. In fact, baby boomers (50%), Gen Xers (56%), and millennials (60%) share the same top financial concern about not having enough emergency savings for unexpected expenses. Following are additional financial concerns for each group and some tips on how to address them.

### Baby boomers

Baby boomers cite retirement as a top concern, with 45% of the group saying they worry about not being able to retire when they want to. Although 79% of the baby boomers said they are currently saving for retirement, 52% of the same group believe they will have to delay retirement. Health issues (30%) and health-care costs (38%) are some of the biggest retirement concerns cited by baby boomers. As a result, many baby boomers (23%) are delaying retirement in order to retain their current health-care benefits.

Other reasons reported by baby boomers for delaying retirement include not having enough money saved to retire (48%), not wanting to retire (27%), and having too much debt (23%).

### Generation X

While baby boomers are concerned about retiring when they want to, Gen Xers are more specifically worried about running out of money in retirement, with 50% of the surveyed group citing this as a top concern. More Gen Xers (26%) than baby boomers (25%) or millennials (21%) have already withdrawn money held in their retirement plans to pay for expenses other than retirement.

Besides worrying about retirement, 25% of Gen Xers are concerned about meeting monthly expenses. Forty-four percent find it difficult to meet household expenses on time each month, and 53% consistently carry balances on their credit cards.

Being laid off from work is another financial worry among Gen Xers, cited by 22% of those surveyed--more than cited by baby boomers or millennials.

Gen Xers (26%) report that better job security would help them achieve future financial goals, which may help explain their worry about both future (retirement) and current (living) expenses.

### Millennials

Unlike baby boomers and Gen Xers who worry about future financial needs, millennials seem to be more concerned about meeting current expenses. This concern has grown substantially for millennials, from 23% in the same survey conducted in 2015 to 35% in 2016. Millennials are also finding it increasingly difficult to pay their household expenses on time each month, with the number jumping from 35% in 2015 to 46% in 2016.

Considering the amount of debt that millennials owe, it's probably not surprising that they worry about making ends meet. Specifically, 42% of the millennials surveyed have a student loan(s), with 79% saying their student loans have a moderate or significant impact on their ability to meet other financial goals.

In an attempt to make ends meet, 30% of millennials say they use credit cards to pay for monthly necessities because they can't afford them otherwise. But 40% of those who consistently carry balances find it difficult to make their minimum credit-card payments on time each month.

### How each generation can address their concerns

Focusing on some basics may help baby boomers, Gen Xers, and millennials address their financial concerns. Creating and sticking to a budget can make it easier to understand exactly how much money is needed for fixed/discretionary expenses as well as help keep track of debt. A budget may also be a useful tool for learning how to prioritize and save for financial goals, including adding to an emergency savings account and retirement.

At any age, trying to meet the competing demands of both short- and long-term financial goals can be frustrating. Fortunately, there is still time for all three generations to develop healthy money management habits and improve their finances.



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## What are my health-care options if I retire early?

If you're eligible for an early-retirement package from your employer, determine whether post-retirement medical coverage is included.

These packages sometimes provide medical coverage until you reach age 65 and become eligible for Medicare. Given the high cost of medical care, you might find it hard to turn down an early-retirement package that includes such coverage.

If your package doesn't include post-retirement medical coverage, or you're not eligible for an early-retirement package at all, you'll need to look into alternative sources of health insurance, such as COBRA continuation coverage or an individual health insurance policy, to carry you through to Medicare eligibility.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), most employer-provided health plans (typically employers with 20 or more employees) must offer temporary continuation coverage for employees (and their dependents) upon termination of employment. Coverage can last for up to 18 months, or 36 months in some

cases. You'll generally have to pay the full cost of coverage--employers aren't required to continue their contribution toward coverage, and most do not. Employers can also charge an additional 2% administrative fee.

Individual health insurance is available directly from various insurance carriers or, as a result of the Affordable Care Act, through state-based or federal health insurance marketplaces. One advantage of purchasing coverage through a marketplace plan is that you may be entitled to a premium tax credit if your post-retirement income falls between 100% and 400% of the federal poverty level (additional income-based subsidies may also be available).

Some factors to consider when comparing various health options are (1) the total cost of coverage, taking into account premiums, deductibles, copayments, out-of-pocket maximums, and (for marketplace plans) tax credits and subsidies; (2) the ability to continue using your existing health-care providers (and whether those providers will be in-network or out-of-network); and (3) the benefits provided under each option and whether you're likely to need and use those benefits.



## Have you heard about the newest employee perk?

What's one of the most cutting-edge employee benefits right now? Company-provided student loan assistance for employees who are paying back student loans.

With a record amount of student loan debt attached to the incoming workforce (visit [finaid.org](http://finaid.org) to see a student debt clock that now tops \$1.3 trillion), companies that rely on a college-educated workforce--and want to attract and retain the best workers--are starting to offer student loan assistance to meet this immediate financial concern of many employees.

How do these programs work? Generally, an employer will contribute a certain amount each month toward an employee's student loans, typically from \$100 to \$250 per month, up to a lifetime cap (for example, \$10,000). Programs may restrict participation to employees who have been with the company for a minimum period of time, and may require employees to remain at the company for a certain period of time after they receive loan repayment benefits.

But participants beware: Unlike matching 401(k) contributions that companies may give to employees, money given to help repay

student loans is considered taxable income. Yet for college graduates facing thousands of dollars of debt and years of loan repayment, this employee benefit can be an attractive perk. Along with the actual financial help, borrowers may get a psychological boost from knowing that they have a plan in place to successfully pay off their loans and that their employer is invested in the outcome.

Even with the early hype, company student loan repayment programs are still a relatively uncommon employee benefit. According to a 2015 employee benefit survey by the Society for Human Resource Management, these plans were offered by only 3% of the more than 450 companies surveyed. Essentially, a handful of large employers that hire a large number of college grads are at the forefront of this trend.

Industry observers expect a lot of pent-up demand for this employee benefit as millennials' student debt burdens continue to garner widespread attention and employee retention efforts intensify as the economy improves. A company's contribution probably won't cover 100% of a young employee's student debt, but it might make a meaningful and welcome dent.